

103
GATT: THE EXPERTS' VIEW

Y 4.F 76/1:T 67/17

GATT: The Experts' View, 103-2 Hear...

HEARING
BEFORE THE
SUBCOMMITTEE ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION

FEBRUARY 8, 1994

Printed for the use of the Committee on Foreign Affairs



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GATT: THE EXPERTS' VIEW

TUESDAY, FEBRUARY 8, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT,
Washington, DC.

The subcommittee met, pursuant to call, at 1:46 p.m., in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Ms. CANTWELL [presiding]. The Subcommittee on Economic Policy, Trade and Environment will begin.

Today, hopefully, we will have two gentlemen perhaps, at least one for the moment, to discuss with us the GATT agreement signed on December 15, 1993.

The multilateral trade agreements signed under the auspices of GATT have the potential to provide a significant boost to the U.S. economy and to the world as a whole. Affecting a market that is three times the size of the U.S. GNP, the GATT agreement, as these trade agreements are commonly known, reduces worldwide tariffs by a third. That step alone will open up many of the new markets for U.S. exporters and will reduce the cost to American consumers of a vast array of imported goods.

Additionally, the new agreement establishes stronger rules for intellectual property rights, refines rules for dumping and subsidies, improves dispute resolution procedures and brings agriculture and services into the international trading system for the first time.

Reaching a GATT accord among 117 countries with economies and interests as different as Germany and Zaire was a monumental achievement. Nevertheless, the agreement is not perfect: cheaper imports may threaten some domestic producers of sugar and textiles; a 10-year phase-in to implement intellectual property protection may be too generous to countries that have been pirating our pharmaceuticals and software; the section addressing trade in services is not as strong as was hoped for; and the antidumping provisions could have been strengthened to combat unfair trade practices.

As is the case with any trade agreement, Congress will correct what it can in the drafting of the implementing language and for the rest, we will simply have to calculate whether the gains of the GATT agreement outweigh the losses. To help us do that today, Mr. Fred Bergsten, director of the Institute for International Economics, is here to share his opinions with us.

Mr. Bergsten, thank you for being here.

[The prepared statement of Chairman Gejdenson appears in the appendix.]

Mr. BERGSTEN. Thank you, Madam Chairman. It's a pleasure to be here. I'll make an overview statement—

Ms. CANTWELL. Mr. Bergsten, I'm sorry. We do have an opening statement by Mr. Roth. If you could just hold off, please. Thank you.

Mr. ROTH. Dr. Bergsten, let me be very brief and say that I want to join in welcoming you here today. You have been with us, our committee before, and we have always appreciated your testimony.

We are particularly fortunate to have some of our best and brightest leaders in the economic policymaking with us today. I cannot think of a better way to lead off our examination of the GATT agreement. The scope of the GATT accord is so broad and the detail is so intricate that it fills a volume the size of a telephone book.

The official analysis which we just received fills around seven volumes. Many individual interests are busy pointing out how the GATT agreement will affect their industry and their businesses. And, Dr. Bergsten, I am especially interested in section 22, which of course gives our right in the area of dairy I thought fritters that away. And what does that mean? We are going to be flooded now with all kinds of imports?

The way I see it, this is going to boil down to one big battle of standards. What standards are we going to apply? Are we going to apply our standards here in this country or the standards they have in France? Or who is going to set the standards, for example? I think we are going to have a huge, huge fight over standards.

I certainly share some of the concerns that have been mentioned in the press and so on. But in this first hearing we are focusing on the big picture. Is this agreement beneficial to our country, to the world trading system and to the future of our economic growth?

Last year total exports around the world came to about \$4 trillion. The estimate is that the GATT accord will add about \$200 billion, or about 5 percent increase. But simply increasing trade volume is not enough to justify this agreement to the American people.

Several basic questions must be asked. Does this accord, for example, make enough progress toward fair trade to justify a reduction in our trade protections? Can we rely on the new world trade organization to police the system effectively? And will the United States see more exports and more export-related jobs as a result?

I look forward to this testimony today because this GATT agreement I feel has not been scrutinized by the Congress or the American people enough. But I think as time goes on they will because it has tremendous ramifications for all of us.

[The prepared statement of Mr. Roth appears in the appendix.]

Ms. CANTWELL. Thank you, Mr. Roth.

And Mr. Manzullo has submitted comments for the record.

[The information appears in the appendix.]

Ms. CANTWELL. Now, Mr. Bergsten, we will let you begin. Thank you.

STATEMENT OF C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. BERGSTEN. Thank you very much.

As you say, this is your first hearing. I, therefore, thought I'd give you a broad overview in which I focused on the strategic implications of the Uruguay round agreements to the United States as I see them. Along the way I will make reference to a number of specific provisions of the agreement, and I am happy to try to answer detailed comments that you may raise later.

Late last year, as you all know well and painfully, the Congress approved the North American Free Trade Agreement, the NAFTA. There were two basic reasons Congress ultimately did pass that agreement.

First, a majority rightly concluded that the agreement promoted American economic interests.

Secondly, and particularly germane to this committee, it became clear that the rejection of the agreement would represent a foreign policy disaster for the United States, not just in Mexico and Latin America, but throughout the world.

Those same two considerations apply to this Uruguay round of the GATT many times over. Its economic benefits for the United States, and for the world, swamp those of the NAFTA. Moreover, the foreign policy impact of rejecting an agreement signed by over 100 countries seems to me unimaginable. My bottom line is that it is clear that the Congress should approve the Geneva deal in the GATT.

At this point it is still difficult to provide a complete, detailed analysis of the final Uruguay round package, partly because the round, despite claims to the contrary, is not yet over. Additional negotiations between now and April 15 can increase the value of the agreement by increasing the market access concessions made by countries around the world.

Moreover, negotiations in some sectors, such as the liberalization of specific services arrangements, could continue right through 1995. The so-called final declaration, which will be agreed in Marrakech in mid-April, will announce agreement to begin early negotiations on several new topics not addressed in the round, such as linkages between trade and environment, competition policies, and other topics that will add further value, if successfully negotiated, to the GATT effort. I happen to think these several aspects of the ongoing effort are highly desirable since they will keep the bicycle of market-opening moving ahead and potentially open additional markets for the United States. Nonetheless, these new efforts make it hard to reach a final appraisal at this time.

Those of you who follow these events closely will remember the Institute for International Economics' complete analyses of recently agreed U.S. trade agreements. We did an assessment of the NAFTA that was widely used in last year's ratification debate. We did one of the U.S.-Canada Agreement back in 1988. We are now hard at work on a detailed assessment of the Uruguay round, and we plan to release it shortly.

Today I will suggest what I think are the major implications of the Uruguay round, particularly with regard to the strategic impact on the United States.

First of all, it is clear that the Uruguay round package when fully implemented early in the next century will provide substantial benefits to the American economy. It brings three new areas into the GATT with substantial trade liberalization where the United States possesses significant competitive advantage—agriculture, services and intellectual property. These items were at the top of the U.S. negotiating agenda at the start of the round in 1986. They have been more or less successfully navigated in the negotiations.

The final package includes significant tariff cuts, as you already mentioned, particularly in some of the rapidly growing developing countries where duties are still high. As you probably know, the administration is developing a new export strategy focused on what they call the Big Emerging Markets, or BEMs. These are 10 to 14 of the world's biggest emerging markets—China, Indonesia, Korea, Poland, South Africa and others.

Many of those countries maintain high tariffs. The reductions in the Uruguay round will significantly improve access to those markets. That's a big plus for U.S. export opportunities. Moreover, the round will eventually eliminate all of the so-called voluntary export restraint agreements, the most pernicious form of protection. It will also eliminate some of the most objectionable investment performance requirements, the rules that many countries, including Mexico, have levied on our foreign investment, requiring our firms to export a certain amount of their output and achieve a trade balance in their own corporate accounts. These requirements have not only deterred our own firms but have been harmful to the U.S. economy and our export options. Many of them are eliminated as a result of the Uruguay round.

The gains that have been negotiated in Geneva will be achieved partly by the round's substantial reductions in the consumer costs of America's own remaining trade barriers. We recently published a study at my institute that conservatively estimates the consumer costs of America's own trade restrictions at about \$70 billion a year. The Uruguay round eliminated some of those costs, and thus provides a big improvement in the welfare of our consumers and the efficiency of our economy. That, incidentally, will expand consumer spending on other products by a like amount and contribute to the creation of American jobs. In addition, of course, new U.S. jobs will be created by rising exports as the rest of the world implements its liberalization commitments under the round.

One of the biggest gains from trade liberalization in our own economy will derive from phasing out the quotas on textiles and apparel and reducing the high tariffs that still apply to those sectors as well. This combination of protection, which in fact is the only large current deviation from free trade in the United States, costs our consumers about \$25 billion a year. Each job this protection saves, costs American consumers and taxpayers at least \$50,000 a year. And the Uruguay round should cut those costs at least by one-half.

Incidentally, if we're interested in improving the lot of the poorest Americans, one of the best possible steps is to eliminate the import barriers on textiles and apparel. By increasing the costs of clothing to the poorest Americans, who spend a disproportionately

high share of their income on such items, the Uruguay round deal by itself will increase the annual disposable income of the average poor American, the poorest 20 percent of our population, by 2 percent or more. And, thus, it is one of the best policies for helping the poor that we could possibly put in place.

To be sure, as you said, Madam Chairman, parts of the Uruguay round outcome were disappointing. It would have been desirable to obtain even larger cuts in both agricultural subsidies and tariff schedules. There are still no liberalization commitments in specific services sectors. Those are under negotiation, but they have not yet happened. In my view, the United States would have gained, not lost, from the inclusion of stronger disciplines in both the anti-dumping and subsidy codes because other countries are increasingly emulating U.S. practices in these areas and our exports will inevitably suffer as a result.

The phaseout schedule for the textile/apparel quotas requires a large jump in its last year, so I would confidently predict there is going to be a political effort to stretch out that timetable before the process ends.

Several other issues called for in the congressional mandate to the negotiators were not fully addressed. Nevertheless, it is pretty clear at this point that the specifics of the agreement add up to a net plus for the United States, and it would be a mistake to reject such a major benefit for our economy.

Beyond the detailed results, there are several major strategic implications of the agreement that may be of particular importance to the Foreign Affairs Committee. First, the successful conclusion of the Uruguay round culminates a historically unique "trade triple play." Congress approved the NAFTA last November. APEC, the Asia Pacific Economic Cooperation forum, began the process of creating an economic community in the Asia Pacific, which is the largest trading area in the world, a few days later in November. Now the Uruguay round has been completed.

These three events transform the global trading system, demonstrating that the major countries still understand the crucial importance of restoring the momentum of opening markets, the so-called bicycle theory.

Just 3 months ago I wrote an article entitled "Trade Policy: apocalypse Now?" In it, I raised questions about what would have happened if all three of these initiatives had failed. It would have been a body blow to world trade, a devastation to American exports, and also an enormous hit to the world economy, which is still quite fragile and with a confidence blow like that could have been driven into recession.

But these events were all navigated successfully, providing an enormous impetus to the world economy and to our own U.S. opportunities.

Second, and closely related, the restoration of credibility for the GATT global trading system makes the world much safer for regional trade advances. Regional initiatives like the European Union, like our own NAFTA, like the potential expansion of NAFTA into the Western Hemisphere later this year, and the creation of an Asia Pacific economic community can be extremely con-

structive in reducing trade barriers and facilitating trade expansion.

Those regional initiatives can be particularly helpful just after the completion of a major multilateral negotiation to keep liberalization moving forward. In the past, the GATT has tended in such circumstances to slip into an extended period of inaction that has opened the door for protectionist backsliding. But regional steps can be dangerous in the absence of effective global arrangements that regulate their interaction. They are sometimes perceived as alternatives rather than supplements to the multilateral accords. A failure of the Uruguay round thus could have promoted inward-looking and destructive regionalism. Instead, its success is promoting regionalism that is outward-looking and constructive.

Third, particularly important to this committee, all three legs of this trade triple play, but especially the Uruguay round and the deal in the GATT, clearly reestablish the international economic leadership of the United States. I for one had hoped that in the post-cold war world, where Europe and Japan have joined us in a sense as economic superpowers, we could have seen more effectively shared or collective leadership of the world economy. But the fact is Japan is unwilling to play a major role in international economic leadership.

The European Union's only leadership in the Uruguay round was to block action on several fronts and whittle down the final package. To be sure, the United States also whittled down some parts of the final agreement. But the United States, in contrast to Europe and Japan, provided the positive leadership that was essential to push the GATT membership to closure in this deal. Other countries will carp about it, but the truth of the matter is that there is yet no alternative to American leadership for defending and strengthening an open and global trading system. That is a very clear outcome and a very clear implication of the Uruguay round's successful conclusion.

Fourth, the Clinton administration, which took over this negotiation in its last year, appears to have engineered two modest changes in the final package from what the Bush administration was contemplating. One was to accept some watering down of the so-called Blair House accord on agriculture in return for additional EU reductions in manufacturing tariffs, thereby shifting to some extent the balance of trade liberalization from agriculture to industry.

The other change was to make a shift in the coverage of research supports under the Subsidies Code. Instead of seeking to expand the substance of the Subsidies Code and more rapidly limit R&D subsidies, the Clinton administration sought to exempt some of those from the final package. That was achieved, indicating a desire to pursue American technology goals more actively. I don't think either of those changes has a big impact on the final package, but together they do modestly alter its final composition.

Finally, the successful conclusion of the Uruguay round has once again demonstrated the value of negotiating a wide variety of issues together in a so-called "round" in the GATT. Tradeoffs among the different sectors and issues permitted a far larger package than

would ever have been possible from a series of narrow, discrete efforts.

It's fully understandable why those who negotiated the round, particularly those who stuck with it for the entire 7 years and still face considerable further work, might say, "never again another round." But the same cries were widespread after the two big multilateral rounds of the past—the Kennedy round in the 1960's and the Tokyo round in the 1970's—and the same logic that produced the Uruguay round may well produce another broad negotiation of that type in the future.

To sum up, I think in addition to congressional support for the Uruguay round package and similar ratification by other countries, the most critical need for the future is to avoid another long hiatus between GATT negotiations, as occurred in the early 1970's and the early 1980's. During those two periods, each of which lasted about 7 years, there was an enormous outburst of new trade restrictions. It is crucial to keep the bicycle moving forward through some combination of ongoing GATT negotiations, new regional efforts, and perhaps a new round within the next few years.

That conclusion is particularly true in the present circumstances because, despite the trade triple play of 1993, it is far too soon to declare victory for the forces of trade opening, which is critical to the United States given our role as the world's largest exporter, a role on which we now depend heavily for our own economic health.

We know that both the Uruguay round and the NAFTA were very close calls. We know that tensions remain between global and regional trade arrangements. We know that the world economy has just limped through its third consecutive year of anemic growth, with unemployment high everywhere and still rising in most countries, and thereby causing protectionist pressures. We know that the American trade deficit will probably reach a record level in 1994, more than the previous record of \$160 billion in 1987. This is not because of a decline in our competitive position, but because our economy is growing faster than other countries and because the dollar has risen to a reasonably high level in the exchange markets, hurting our competitors a bit. We've got to keep that set of issues closely under review.

In addition, I think it's fair to say we learned from the Uruguay round that probably a majority of the countries within the European Union are protectionist. In terms of weighted averages, the British and the Germans dominated the outcome and brought Europe along to the final package. But if you size up the 12 member countries in Europe, probably a majority of them lean to the protectionist side.

There are new protectionist measures breaking out all over. We ourselves, along with the Western Europeans, have just hit the Russians on aluminum—rather inexplicable since we're at the same time telling the Russians to move to market economic forces and liberalize their economy. Yet we hit one of the few products they can sell to the rest of the world.

Just this week, on Friday, when Prime Minister Hosokawa from Japan is here to meet with President Clinton, a big new trade conflict will likely erupt because of the failure to reach much agreement under the framework talks, underway since last summer.

So the prospect of trade conflict, rather than disappearing with the triple play of 1993, is likely to remain with us at least for this year and probably beyond. It is thus imperative, I think, for Congress to vote its approval of the Uruguay round package as early as possible. For all the criticism that NAFTA stirred, it was basically a lopsided bilateral deal in favor of the United States; we gave very little while Mexico undertook further substantial liberalization. The Uruguay round, by contrast, since it comprised a deal with 100 other countries, including at least one big player that is our equal, the European Union, required the United States to give a good deal and not to get everything we wanted. So it's no surprise that many American firms and some commentators prefer bilateral deals with smaller countries and have criticized the GATT pact.

But my final bottom line is that they are simply wrong. The payoff from a global negotiation is much bigger for the United States as the world's only real global trading power than any conceivable bilateral or regional deal. It has become increasingly impractical to rely on bilateral negotiations in a world of more than 100 trading partners, dozens of which are now significant. Moreover, any failure of the global system would be catastrophic for the United States, undermining both the potential gains from regional and bilateral deals, as I've noted, and the uniquely global economic and security interests of this country.

I think upon final detailed examination it will become clear that the Uruguay round package is a substantial plus for the United States. The Congress should approve it, and do so as soon as possible.

[The prepared statement of Mr. Bergsten appears in the appendix.]

Ms. CANTWELL. Thank you, Mr. Bergsten. There was a World Bank study that said at the end of a 10-year transition period that the GATT agreement would boost the world economy by \$212 to \$270 billion per year, and I know that sounds very significant, but do you think there are certain regions of the world that will do better than others in that regard, and particularly in the short term? How do you think that will impact us in the United States?

Mr. BERGSTEN. There won't be much short-term impact of the Uruguay round deal on anybody. Most of the liberalization in the Uruguay round package gets phased in over a period of 10 years.

The tariff cuts, which are on the order of one-third to 40 percent, do not amount to a lot in terms of tariff percentage points for the big industrial countries, which only have tariffs of 4 or 5 percent now on average. That means they will be cut by a couple of percentage points over 10 years.

That change is so minuscule that in the short run it will be hardly noticeable. As I mentioned, some of the potential big payoff comes in services sectors, which are still being negotiated.

Much of the Uruguay round package, which is a big gain to the United States—the improvement of intellectual property rules, the improvement of dispute settlement mechanisms in the GATT—are process changes. They will only pay off as individual trade disputes are brought to the GATT and we use them to defend our rights and

to get countries to liberalize, for example, their intellectual property rules.

So I think it will be very hard to determine significantly quantifiable aspects of the round in the near term. Even over the long term, and you refer to the World Bank's estimate 10 years out, it will be quite hard to discern the quantitative impact of this negotiation.

I and my institute do not shy from trying to do such assessments. We calculated quantitative estimates on the job gains from NAFTA, as well as GNP effects and the like. But the Uruguay round is such an amalgam of rule changes, deals yet to be negotiated and the like, that I would be quite leery of putting a number on it.

I think the World Bank number is reasonable. I think the number mentioned by the administration, that the U.S. economy will gain by \$100 billion or so by 10 years from now, is a reasonable ball park estimate. The numbers are large in absolute terms. They are modest as a share of our total economy, but they are clearly all positive. That is the clear conclusion we can all reach and the reason the deal ought to be supported.

Ms. CANTWELL. You mentioned in your testimony a couple of times the significance of GATT on other regional trading partners, particularly APEC. Would you suggest, particularly when it comes to intellectual property rights, something that I think the United States and those countries should continue to discuss, that—I mean, there is some difficulty in wanting to formalize these organizations into trade agreements.

What would you suggest in playing off of GATT as a boast for them to have, without formalizing their agreements and associations, some positive impact on resolving disputes?

Mr. BERGSTEN. As I said, I think the successful conclusion of the Uruguay round makes the world safer for regional initiatives. Had the Uruguay round failed, and had we then launched a big initiative to extend NAFTA into South America, or develop the APEC in the Asia-Pacific, those initiatives might have then been seen as alternatives to the global system, and created some tension vis-a-vis the Europeans or others that are not in those regions.

Now that the GATT agreement has succeeded, and that the GATT as an institution has seen its credibility restored, I think there is a very positive springboard for now trying to go beyond what was agreed in the GATT in certain regions.

Take the APEC. The Asia-Pacific grouping amounts to about half the world economy, 40 percent of world trade. It includes Japan, China, and Indonesia—a number of these big emerging markets, which are huge export and trade opportunities for the United States.

Based on what was achieved in the GATT, I think that the APEC, building on the ministerial meeting, the leadership meeting that President Clinton chaired in November, could now go beyond the GATT and take some new steps.

The report of the so-called APEC Eminent Persons Group, which I chaired, recommended—and this was endorsed in principle at Seattle in November—that the APEC address items that could not yet be fully agreed to in Geneva by all the countries in the GATT,

see if they could be worked out at the regional level, and move beyond the GATT—a kind of GATT plus.

If these issues could be worked out at the regional level, they could be then returned to the GATT, where other countries would be invited to join in as well. But initially we are likely to go further in a region than we could go on the world level.

One area where such an advance is doable is investment. The leaders in Seattle agreed in principle to develop an APEC investment code which would, for the first time internally, provide protections, transparency, and national treatment commitments to improve the framework for investment, and U.S. exports and job creation will accompany that investment.

Another area that you mentioned could be intellectual property. We might be able to extend the intellectual property rules further in some of the regional contexts beyond what was agreed in the GATT.

So with the Uruguay round behind us, assuming it is ratified and goes into effect a year or 18 months from now, regional agreements should be pursued to go beyond it, keep this bicycle moving, and try to build and liberalize further in these different areas.

Ms. CANTWELL. Thank you. Mr. Manzullo.

Mr. MANZULLO. Thank you. There was an item that appeared in the *Washington Post* on February 1 detailing the fact that 44 U.S. Republican Senators had signed a letter objecting to what could be called the industrial policy on the part of this country.

My question to you is do you think that the GATT agreement permits increased government assistance to industry?

Mr. BERGSTEN. I happen to agree with the 44 Senators that the U.S. negotiating team made a mistake to broaden the scope for R&D subsidy under the Subsidies Code in the GATT. I think we should have stuck to the earlier negotiating position, which was to try to limit those subsidies rather than extend the scope for them.

Having said that, I think it's a vast overstatement to say that the GATT deal opens the door for an industrial policy in the United States.

Mr. MANZULLO. Can I back you up? We could get philosophical about the latter part of your answer, but the initial part of it, could you expand more on that?

Mr. BERGSTEN. Yes.

Mr. MANZULLO. Qualitatively or quantitatively.

Mr. BERGSTEN. Yes.

Mr. MANZULLO. Regarding the expansion of increased government subsidies.

Mr. BERGSTEN. The Subsidies Code of the GATT, which I actually was involved in negotiating originally when it came into the GATT during the Tokyo round negotiations in the late 1970's, for the first time brings international disciplines to national government subsidy policies.

Obviously, subsidy policies range across the spectrum of economic activity—agricultural subsidies, location subsidies, job subsidies, investment subsidies. The case in point here is R&D subsidies. Those are one of the many types of subsidies that come under the Subsidies Code.

The basic structure of the Subsidies Code is what's called the traffic light system. There are red lights, yellow lights and green lights. The red lights are no-nos. There are certain kinds of subsidies that are simply verboten. They are not permitted under the international cease-fire agreement.

On the other side, the green light subsidies say there are certain kinds of subsidies that are beneficial to everybody. They don't harm others in international trade, so we permit them.

In the middle is a large group of yellow light or amber light subsidies that are permitted unless they can be demonstrated to have adverse effects on other countries' trading interests. Then you have to take a specific case to the GATT, create a panel, and go through the decisionmaking process to determine the effects of the subsidies and whether they should be banned or permitted.

Much of the debate in the Uruguay round, and the evolution of the Subsidies Code, concerned which subsidies come under which of these three headings and how you define the different types of subsidies.

In the case of R&D, there had traditionally been some fairly low permissible limits on the share of government funding of R&D in a particular sector or a particular project. Those ratios were increased substantially in the Uruguay round deal.

I'm not sure I've got the precise numbers, but it was increasing the permissibility of research subsidies from something like 25 percent of a project to 75 percent and development subsidies from something like 10 to 50, meaning that with those higher ratios of government subsidization of a project, the subsidies will be treated as green light and therefore permitted.

And so the argument made by the Republican Senators was that this is a great green light for government supports for individual sectors, and therefore for industrial policy. That's the argument.

As I said, I agree with the thrust and substance of their proposal. It would have been better to keep those numbers down, indeed would have been desirable in my view to reduce those numbers and thus to reduce the scope for government subsidies of this type.

Having said that, however, I don't think it's any vast open door for industrial policy, or what everyone thinks of as industrial policy. The main constraint on industrial policy in any country, including our own, is not the GATT or any international rules, but the budget.

Mr. MANZULLO. Let me take you back again. I'm really interested in that first area.

Mr. BERGSTEN. Sure.

Mr. MANZULLO. So the answer is that with all the negotiations that took place in GATT and were just consummated recently, there will be increased subsidies by foreign countries toward the manufacturers that they choose to subsidize.

Mr. BERGSTEN. There will be increased scope or possibility for subsidies, both abroad and here, without running afoul of international rules. Whether countries do it or not, we don't know.

Mr. MANZULLO. So that means that the U.S.' manufacturers are placed in a position where they may have to ask Congress for subsidies.

Mr. BERGSTEN. Or they try to react in some other way to the foreign practices, but you are right on balance, and that's why I said in my statement and I reiterate here, I think the United States should have tried to tighten the rules.

Mr. MANZULLO. If I could, is there another way to so-called level the playing field for American manufacturers without seeking a subsidy from Congress? That's the question.

Mr. BERGSTEN. Sure, they can pull up their socks and make one more round of productivity improvements within the firm itself. They can look for other kinds of government supports than subsidies. It depends on what you call a subsidy. The government can help them in other ways—procurement, an investment tax credit, and various kinds of targeted help, though in some broad sense, one might call those subsidies as well.

I think there is a risk that this liberalization creates an international subsidy race greater than we have had before.

Again, I would stress that the major constraint in most countries, and I think here as well, is not so much the international rules as the estimate within the country of whether these subsidies work—in most cases they don't—and whether budgetary resources are available to support them—in most cases they are not.

Nevertheless, the scope is there.

Mr. MANZULLO. I appreciate it. Thank you very much.

Ms. CANTWELL. Mr. Fingerhut.

Mr. FINGERHUT. Thank you. Good to see you again, Fred.

Mr. BERGSTEN. Good to see you.

Mr. FINGERHUT. I apologize for missing your testimony, but I was looking through it and just had some questions prompted by it. You make the argument that came up frequently during the NAFTA debate at the beginning of your testimony, that the foreign policy impact of rejecting the agreement is devastating.

I just wonder if that isn't one of those arguments that becomes a self-fulfilling prophecy. On that basis, are we at any time the President does anything that implicates other countries, we should just automatically give him the stamp of approval because it would obviously have some foreign policy implications.

Mr. BERGSTEN. I wouldn't put it quite that comprehensively, but I do think there is a substantial cost to the United States whenever the President or those legitimately responsible for negotiating international agreements are subsequently not supported, or worst case, repudiated elsewhere in the society.

Of course, it does happen from time to time, but I think the corollary of that is that the President or the U.S. trade negotiators must always have close consultation and involvement with the Congress in moving ahead in any negotiation of this type—whether it is NAFTA or the Uruguay round.

We, of course, have a peculiar governmental system—peculiar not in the pejorative sense, but different from every other country in that we have the two coequal branches of government.

That was, of course, why we invented the fast-track negotiating process 20 years ago, and why congressional involvement in the process has to be intense throughout the whole exercise.

Given that and given the fact, at least as I sense it from the outside, that there has been considerable congressional participation

all along, it would come as a massive shock to the world if this one were to be rejected.

Mr. FINGERHUT. I think it probably would. I just worry about that being the lead argument. I think that we are likely to hear it because it was so successful and prominent at the end of the NAFTA debate. You always start where you left off in the political cycle.

Agriculture—you testified that this is a positive agreement for the United States because of our advantages in the agricultural area. We know of course that France was one of the primary stumbling blocks to agreement in this area because of their politically active and well-organized smaller farmers.

Does this mean that we've made a public policy decision in this country that corporate, large-scale agriculture is the way to go, and that whatever family farms survive, do so just by the seat of their own pants?

Mr. BERGSTEN. I wouldn't put it that way, but I think we have made a decision that high productivity agriculture is the core of our food production system, and that does correlate to some extent with large farms, since there are big economies of scale in agriculture.

As one looks at the last century of American economic history, surely one of our great achievements is that we moved from 40 percent of our population in farming to now less than 2 percent, and we produce unimaginably more output.

That is a huge benefit for our economy that required enormous improvement in productivity. Consequently, we do have a big global advantage vis-a-vis most countries in many products. So I think it's quite natural that in the Uruguay round or the NAFTA, likewise, we sought a reduction of foreign barriers in those big acreage, high-productivity crops where the United States has an enormous competitive advantage.

Of course, it is also true that there are some sectors, I think Mr. Roth mentioned one in his initial remarks, in agriculture where the United States does tend to lose out. That's the same adjustment process that we look at in the economy at large when we liberalize trade, attempt technology advances and the like.

We have to recognize that. We have to try to ease the adjustment process for those who do lose out, but on the whole, I think trade liberalization in agriculture is in fact the major gain to the United States in all these arrangements.

Mr. FINGERHUT. So the answer to those of us who have constituents who tend to be smaller farmers—family farmers—is that if GATT were to be approved, the trends that have been occurring anyway will accelerate? Would you say that is a fair characterization?

Mr. BERGSTEN. I think it is fair to say that trade liberalization in the aggregate in individual sectors tends to accelerate the pace of change. There is much change that is driven by international trade and external factors, anyway.

As I mentioned in my original response to the Chair, the Uruguay round outcome will actually have an impact on that pace of change that is very hard to discern. Even in retrospect it will be hard to discern.

We are talking about modest reductions in barriers phased in over a period of 10 years or so, and so even the sector that is most troubled or disrupted will face a very slow phase-in of the change that will produce the adjustment problem, and should have time to deal with it.

So I don't think there is any risk of import surges or disruptive outcomes, but there is a modest acceleration of a trend that is already underway.

Mr. FINGERHUT. If I could, just one more question, Madam Chair.

You also talked in your testimony about efforts to eliminate local content restrictions. Two parts to my question, one is can you give us a little bit more detail about what, in fact, GATT does in this regard?

And secondly, of course, local content requirements are popular here as well as other places. What of our laws do you see being impacted by the GATT agreement?

Mr. BERGSTEN. Well, I'm not aware that we have any local content laws, at least at the national level. There are some state Buy America or Buy Local laws, and that may be what you're referring to.

Mr. FINGERHUT. That is what I'm referring to.

Mr. BERGSTEN. But at the national level, I don't think we have any local content laws. We talk about it occasionally. The House considered local content legislation for the auto sector a decade ago.

Mr. FINGERHUT. I was referring to state and local.

Mr. BERGSTEN. Well, the nature of most of the local content laws is to require a firm to include a certain share of the value of its total inputs from internal sources, as opposed to imported products.

One example has been Mexico in the auto industry, which has required a very large share of the total value added in a domestically produced car to be supplied domestically. That has been hugely inefficient in the sense that it has produced much higher prices for the cars, and it has denied American exporters of both cars and parts a very large and very lucrative market.

That problem was addressed in NAFTA, but the same kinds of agreements, these local content rules and their kin, trade balancing requirements, are banned in the GATT agreement. That to me is one of the unsung and most important aspects of the GATT agreement, and I think that will pay off in more exports and market penetration around the world for the United States.

Mr. FINGERHUT. Thank you.

Ms. CANTWELL. Thank you. Ms. Meyers.

Mrs. MEYERS. Thank you, Madam Chairman. I think just one question, because you've already responded to a couple of things I was interested in, and maybe you addressed this in your testimony. I have been looking through it.

Can you talk to me about what you think the future of GATT is? The agreement took such a long time to reach, and you, yourself, have just said that it's a modest barrier reduction phased in over a very long period of time. Was it all worth it, and will we do it again in the future?

Mr. BERGSTEN. I think the future of GATT is pretty bright. If we didn't have it, we would have to invent it, because in a world where all countries, certainly including our own, now depend so heavily

on international trade, investment, services exchange and the like, there must be rules of the road that are widely agreed.

The GATT is by no means perfect. There are those caveats that I mentioned and you reiterated. We would all wish for a more perfect GATT, but you have to have some international rules and institutional arrangements to back them up in order to avoid the law of the jungle in what is increasingly a crucial element of all of our economies.

I think the GATT system was tested in this negotiation. It did go on for 7 years. It had false starts. It had missed deadlines, but at the same time, it was by far the most ambitious negotiation of this type ever undertaken, and even though we in our final assessment will probably give it a B or a B-minus instead of a higher grade, compared with the alternative of failure or the alternative of no GATT all, it really is quite a remarkable achievement.

As I say, if we didn't have it, we would have to invent it, because so much of our own economic destiny is tied up in international trade.

I think it is crucial for us to build on this success in several of the ways I mentioned in my statement, and try to keep perfecting the mechanism. Governments, as always, will always be a step or two behind the private markets, if not more.

New sectors will develop. New areas will be internationalized. New protectionist devices will come on the stage to try to subvert the rules, and as always, the sheriff is a couple of steps behind.

But I think the continuation and elaboration of that process is very, very important, and so is the demonstration that for all the difficulty, 117 countries at the end of the day can agree. All compromised; all accepted outcomes short of their own intentions. That's on the whole a pretty solid and constructive conclusion, and I think one that we can take some pride in.

Mrs. MEYERS. Do you think—how serious would you characterize the concern about GATT in relation to the subsidies, the increased subsidies or the increased I think you said scope of subsidies? Is it a really serious concern in this country, and could it take GATT down, or is it something that in some way can be adjusted?

Mr. BERGSTEN. I think it cannot be permitted to take GATT or the Uruguay round down. I think that would really be throwing out a huge baby with a little bit of bath water. But I do think it was unfortunate, and I think the Congress might want to say that it instructs the administration to go forth in the post-Uruguay round GATT effort and try to reverse it.

There will be another negotiation in the GATT, whether an ongoing effort or a new round, at some point. There will always be a future trade agenda. These things do go up and down, and sometimes do get reversed, and I think it would be perfectly legitimate for the Congress in passing the Uruguay round legislation, which I hope and advocate that you do, to indicate that there are certain areas in which you would have preferred a different outcome.

There may be several of those, and this, I would think, is one. Simply put down your marker that we could do better next time both in terms of our own export interests in not facing subsidies abroad, and also perhaps not opening up so much scope for internal subsidization that frequently does not pay off.

Ms. MEYERS. Thank you.

Ms. CANTWELL. Thank you. Mr. Gejdenson.

Mr. GEJDENSON. Thank you. My apologies for getting here late. A little snow tends to turn the system into mush.

Let me ask a couple of quick questions, because I know you've been here for some time. One is on the intellectual property exemptions for places like India and Brazil, we are basically telling them that they can steal for the next 10 years, and then they must straighten out their act.

Mr. BERGSTEN. Well, it's one of these issues in which you choose whether to view the cup as half full or half empty. The intellectual property agreement in the Uruguay round is really path-breaking. It is the first time there has been an international convention that brings every country's domestic rules on international property into international conformity, and stops the pirating and thievery that has gone on and been so costly to our country.

Obviously, I would like to see it happen tomorrow for every country. In a negotiating give and take, you get what you can at the end of the day.

Mr. GEJDENSON. Ten years is a long time.

Mr. BERGSTEN. Ten years is a long time. I would have preferred to have it tomorrow. I would have preferred to have it in a shorter period.

Mr. GEJDENSON. There are no incremental steps, are there?

Mr. BERGSTEN. I don't believe so. I think it's all or nothing. We get all right away for all the industrial countries. We get less for the developing countries.

I would make a prediction, though. The prediction is that India, Brazil and the other countries who supposedly benefit from this long phaseout will move within 10 years to bring their systems into conformity.

The reason is a very simple one. This 10-year phaseout or 10-year grace period for the Indias and Brazils is a residue of an old principle in the GATT called special and differential treatment for developing countries.

It goes back to the days of North/South conflict beginning two decades ago. Developing countries are tending more and more to compete with each other to provide more attractive climates for foreign investment, because they know they need it to improve their economic outcomes.

As I mentioned earlier, the APEC agreed in Seattle to have a new investment code exactly for these reasons. Neither India nor Brazil is in the APEC, but if Indonesia and Thailand and all those countries themselves move more quickly to eliminate their intellectual property pirates, that's going to hurt India's and Brazil's competitive position.

I predict this will happen in less than 10 years because the countries themselves will decide it is in their interest.

Mr. GEJDENSON. We're going to write that down, because we want a running scorecard on your predictions. You are doing very well, by the way, to date.

Taiwan and China both want to get into the GATT, neither of which are in this GATT. How does this relate to the two of them? How does that relate to nonmarket economies like a China that ba-

sically, still looks at labor, production, taxes and everything in one kind of bowl of soup?

Mr. BERGSTEN. I think it's very important to bring the nonmarket economies into the GATT as soon as possible. China is the number one case in point, but Russia is another case in point which, as the aluminum issue shows, is increasingly penetrating world markets, but it is not subjected to these rules and is not in an institutional framework that restricts what it does.

The problem, the obvious one, is how do you bring a nonmarket economy, which doesn't really rely heavily on the price system, into a rules-based arrangement founded on prices—tariffs, dumping rules and the like—all of which relate to price differentials that are meaningful in an economic sense?

The solution that has been worked out over the years with Poland and other Eastern European countries and the like is to negotiate their entry.

As you I am sure know, China's entry has been under negotiation for several years with a GATT working party, but with the United States taking the lead role. The objective there, which I support, is to use those entry negotiations to extract from China or Russia or whomever amendments to their trade regimes that will bring them as much into conformity with the GATT system as is possible for nonmarket economies.

That should be done expeditiously both with China and with Russia.

Taiwan is a different case. There it is wholly the political problem of Taiwan vis-a-vis China. I think the objective is to get them into the GATT at the same time on a parallel basis since they are now 2 of the world's top 15 trading countries. That ought to be done with alacrity.

Mr. GEJDENSON. Let me ask one final question. Did we make too much of an issue of Hollywood here? You know, there is a big battle in the short term here. It's obviously an important part of our trade picture.

Mr. BERGSTEN. No, I don't think we made too much of it. I think we would have made too much of it had we let the round founder, but I think it is perfectly legitimate for the United States to push very hard for improved market access for sectors in which we have a competitive advantage.

The real issue was whether we should have accepted the deal that the Europeans offered as half a loaf rather than the full, rather than backing away from it. I suspect we will want to go back to that negotiating table bilaterally, but I think we should keep pushing.

It is a big export sector. It is growing fast. There is no reason we should back away.

Mr. GEJDENSON. It's hard to think the French think anybody has a culture to threaten theirs.

Mr. BERGSTEN. Right.

Mr. GEJDENSON. Thank you very much.

Ms. CANTWELL. Thank you, Mr. Gejdenson. I'm going to turn the chair back over to Mr. Gejdenson for the markup of the Environmental Export Promotion Act.

[Whereupon, at 2:30 p.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF REP. SAM GEJDENSON
CHAIRMAN, SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
MARK-UP OF THE ENVIRONMENTAL EXPORT PROMOTION ACT OF 1994
FEBRUARY 8, 1994

Last August, the Subcommittee held a hearing on U.S. environmental exports and the need to focus our government's export promotion resources on the environmental sector. Unlike many of the Subcommittee's hearings, the government and private-sector witnesses actually arrived at strikingly similar conclusions.

First, the U.S. had a \$4 billion trade surplus in the environmental sector in 1990, but our major competitors are gaining fast. The American environmental industry must not be allowed to lose its competitive position.

Second, environmental exports not only help American firms and American workers, but also help to protect the global environment. We all benefit from the diffusion of state-of-the-art environmental technology to developing countries.

Third, the international market for environmental goods and services is growing rapidly. It currently stands at \$270 billion annually, and is likely to grow to \$400-\$600 billion by the end of the decade.

If U.S. firms manage to capture 20% of the growth anticipated in the overseas environmental market, an estimated 300,000 new American jobs will be created over the next seven years.

Based upon these three conclusions, I have drafted the Environmental Export Promotion Act, which we will mark-up today. I am pleased the Rep. Gerry Studds, the Chairman of the Merchant Marine and Fisheries Committee, and Rep. Elizabeth Furse have joined me in introducing this legislation, and I commend them for their leadership on the envirotech export issue.

The Gejdenson-Studds-Furse legislation is designed to fine-tune the U.S. government's export promotion efforts to increase environmental exports. The bill, in large part, is drawn from recommendations made by the Administration in its November 1993 report on this issue.

The legislation has six primary components.

Section (a) establishes an Environmental Technologies Trade Advisory Committee to guide the Trade Promotion Coordinating Committee (TPCC) in carrying-out its export promotion efforts in the environmental sector.

The section also requires the annual designation of five priority countries whose markets have the greatest potential for the export of U.S. environmental technologies, goods and services. A plan to help U.S. industry capture those five markets must then

be developed.

Section (b) requires the Administration to place environmental specialists in five priority markets targeted under section (a). These specialists will go to bat for U.S. environmental firms.

The section also requires that the staff of the Commerce Department's one-stop export shops be trained in environmental technology.

Furthermore, Section (b) authorizes international environmental initiatives to encourage other regions to adopt American-style environmental standards and to buy U.S. environmental products.

Finally, the section establishes an environmental technologies project advocacy calendar, which will contain an updated list of all major overseas environmental projects of possible interest to U.S. exporters.

This legislation will help to ensure that American environmental companies remain on the cutting edge of the international environmental marketplace. It will also help to create export-related jobs here at home. I urge my colleagues to support its passage.

OPENING STATEMENT OF HON. TOBY ROTH

Let me join in welcoming our witnesses today. We are particularly fortunate to have two of our country's best and brightest leaders in economic policymaking.

I can't think of a better way to lead off our examination of the GATT agreement. The scope of the GATT accord is so broad and the detail is so intricate that it fills a volume the size of a telephone book.

The official analysis, which we just received, fills another seven volumes. Many individual interests are busy, pointing out how the GATT agreement will affect their industry or their business.

I certainly share some of those concerns. But in this first hearing, we are focusing on the big picture: "Is this agreement beneficial to our country, to the world trading system and to future economic growth?"

↑ Last year, total exports around the world came to about \$4 trillion.

The estimate is that the GATT accord will add about \$200 billion—about a 5 percent increase. But simply increasing trade volume is not enough to justify this agreement to the American people. Several basic questions must be answered:

- Does this accord make enough progress toward fair trade to justify a reduction in our trade protections?
- Can we rely on the new "world trade organization" to police the system effectively?
- And, will the United States see more exports and more export-related jobs as a result?

I look forward to today's testimony, as a first step in answering these questions.

REMARKS OF THE HONORABLE DON MANZULLO
BEFORE THE SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND THE ENVIRONMENT
ON THE GENERAL AGREEMENT ON TARIFFS AND TRADE
FEBRUARY 8, 1994

Mr. Chairman, I commend you for holding hearings on the complex issue of the GATT accord. To many industries, a successful conclusion of GATT with lower barriers to trade is worth 117 NAFTA's. That's because U.S. exporters will now have the chance to become more price competitive overseas with lower tariffs and removal of import restrictions.

However, some have raised serious concerns about provisions in GATT that permit increased government assistance to industry by Europe and Japan. It is already difficult enough for Boeing to compete against the heavily subsidized European Airbus. If further industrial subsidies are permitted, it would force either the U.S. government to mimic European policies or deny Boeing export opportunities. I enclose for the record a copy of a February 1, 1994 Washington Post news article, which discusses this problem in more detail. With the largest single employer in the 16th Congressional District of Illinois, Sundstrand Corporation, as a major supplier to Boeing, this is no academic exercise for my constituents.

I look forward to the testimony of the experts before us to see if they have any comments on this specific issue. Thank you, Mr. Chairman.

Senate Republicans Object to GATT Pact Provisions

Danforth Threatens to Vote Against Trade Accord, Saying It Permits Big Subsidy Increases

By Peter Behr
Washington Post Staff Writer

The Senate's 44 Republicans raised strong objections to a part of the newly negotiated global trade agreement yesterday, saying it is an industrial policy that permits large increases in government subsidies for private companies.

Sen. John C. Danforth (Mo.), the ranking Republican on the Senate Finance subcommittee on international trade and leading critic of the agreement's subsidies provisions, said he would vote against the trade agreement if his concerns are not met.

But Clinton administration officials said it would not be possible to reconcile the 117 nations that approved the expansion of the General Agreement on Tariffs and Trade, or GATT, on Dec. 15.

A letter to U.S. Trade Representative Mickey Kantor protesting the subsidy provisions, signed by all 44 Senate Republicans, does not make a similar threat. Many of the Republican senators have strongly supported the GATT agreement, which could come up for separate House and Senate votes as soon as early this summer.

"We believe the new agreement promotes industrial policy," the senators said.

The Republican show of force injects an unexpected partisan element into the congressional debate over the GATT accord, worrying administra-



MICKEY KANTOR

... gets letter from 44 senators

tion officials who have hoped to avoid a repeat of last year's political firestorm over the North American Free Trade Agreement.

A senior administration official said the criticism is off target. The new research and development subsidy provisions are needed to protect research programs at the National Institutes of Health, the National Aeronautics and Space Administration and the national laboratories, the official said.

Although the administration plans several new research ventures, includ-

ing a "Clean Car" project with Detroit's automakers, this new spending would have to be approved by Congress, the official noted.

Other parts of the new GATT rules strengthen controls on industrial subsidies, the official said.

"The question is whether the Republican senators ... want to risk the successful conclusion [of the GATT agreement] by escalating this issue," said the official, who declined to be quoted by name.

However, Danforth said that by

"We believe the new agreement promotes industrial policy."

— From a letter to U.S. Trade Representative Mickey Kantor signed by all 44 Senate Republicans

opening the door to increased government assistance to industry by Europe and Japan, the GATT provisions would force the United States either to match the aid, putting more pressure on the federal budget, or duck the challenge, giving other countries a potentially damaging competitive advantage.

Western European nations spent more than \$35 billion in 1990 on industrial subsidies, twice the federal

and state subsidies in this country, according to Gary C. Hufbauer of the Institute for International Economics.

The Republicans' letter also complained that the administration would turn research and development efforts into a new form of federal pork-barrel spending.

Hufbauer said he agrees with the Republican criticism, but it is not worth scrapping the GATT agreement on that account. "There are many other features that are more important," he said.

THE URUGUAY ROUND: AN INITIAL ASSESSMENT

A Statement by

C. Fred Bergsten
Director

Institute for International Economics

Before the
Subcommittee on Economic Policy, Trade and Environment
Committee on Foreign Affairs

US House of Representatives

February 8, 1994

In late 1993, the Congress approved the North American Free Trade Agreement. There were two basic reasons for its passage. First, a majority rightly concluded that the agreement promoted American economic interests. Second, it became clear that rejection of the agreement would represent a foreign policy disaster for the United States--not only in Mexico and Latin America but throughout the world.

The same considerations apply to the Uruguay Round--many times over. Its economic benefits for the United States, and for the world, swamp those of NAFTA. The foreign policy impact of rejecting an agreement signed by over one hundred countries is

Dr. Bergsten is also Chairman of the Competitiveness Policy Council, chartered by the US Congress to advise the President and the Congress on strategies to improve the competitiveness of the American economy, and Chairman of the Eminent Persons Group appointed by APEC to prepare and develop a "vision" for economic cooperation in the Asia Pacific region. His latest of 22 books is Reconcilable Differences? United States-Japan Economic Conflict. The views expressed in this speech are those of the author and do not necessarily reflect the views of individual members of the Institute's Board of Directors or Advisory Committee.

unimaginable. Hence it is clear that the Congress should approve the Geneva deal.

It is still difficult to provide a complete analysis of the final package. This is partly because the Round is not yet over. Additional negotiations between now and April 15 can increase the value of the agreement. Negotiations in some areas, such as liberalization of specific services sectors, could continue through 1995. In addition, the Final Declaration (to be adopted on April 15) will announce agreement to begin early negotiations on several new topics that were not addressed in the Round, such as trade-environment linkages and competition policies, that will add further value to the GATT effort. These several aspects of the ongoing effort are highly desirable since they will keep the bicycle of market-opening moving ahead.

My Institute is already working on a comprehensive assessment of the results,¹ along the lines of those we produced for both the United States-Canada Free Trade Agreement² and

¹ Jeffrey J. Schott, The Uruguay Round: An Assessment, Washington: Institute for International Economics, forthcoming.

² Jeffrey J. Schott, The United States-Canada Free Trade: An Evaluation of the Agreement, Washington: Institute for International Economics, April 1988.

NAFTA³, and plan to release it shortly. Today I will assess several major implications of the agreement and indicate why it clearly should be supported by the Congress.

Some Detailed Results

Most importantly, the Round--when fully implemented in the early twenty-first century--should provide substantial benefits to the American economy. It brings three new areas into the GATT where the United States possesses significant competitive advantage--agriculture, services and intellectual property. It includes significant tariff cuts, particularly by some of the rapidly growing developing countries where duties are still high. It will eventually eliminate all "voluntary" export restraint agreements, the most pernicious form of protectionism,⁴ and some of the most objectionable investment performance requirements (local content and trade balancing).

These gains will be achieved partly by the Round's substantial reduction in the consumer costs of America's own remaining trade barriers. A new Institute study estimates these

³ Gary C. Hufbauer and Jeffrey J. Schott, NAFTA: An Assessment, Washington: Institute for International Economics, October 1993, revised.

⁴ C. Fred Bergsten, Kimberly Ann Elliott, Jeffrey J. Schott and Wendy E. Takacs, Auction Quotas and United States Trade Policy, Washington: Institute for International Economics, September 1987.

costs at about \$70 billion in 1990,⁵ of which at least one third would be eliminated by the Round. This will expand consumer spending on other products by a like amount and contribute to the creation of American jobs. In addition, new US jobs will be created by rising exports as the rest of the world implements its liberalization commitments under the Round.

The biggest gains from trade liberalization in our own economy derive from phasing out the textile/apparel quotas and modestly reducing the high tariff protection that these sectors also enjoy. This combination of protection, which at present is in fact the only substantial US deviation from free trade, costs American consumers about \$25 billion per year. Each job saved by that protection costs American consumers/taxpayers at least \$50,000 annually--far higher than the average wage in the industry.⁶ The Uruguay Round agreement should cut these costs by at least one half, saving Americans \$10-15 billion per

⁵ Gary C. Hufbauer and Kimberly Ann Elliott, Measuring the Costs of Protection in the United States, Washington: Institute for International Economics, January 1994.

⁶ Charges that the agreement will destroy 2 million American textile/apparel jobs are as fanciful as Ross Perot's assertion that NAFTA would put 6 million American jobs at risk. The textile and apparel industries together employ only about 1.6 million workers today. The maximum additional job loss due to the agreement by 2005 will be only 100,000--which can be readily accommodated by normal attrition.

year⁷--and saving the poorest twenty percent of Americans at least 2 percent of their annual incomes.⁸

To be sure, parts of the Uruguay Round outcome were disappointing. It would have been desirable to obtain larger cuts in both agricultural subsidies and tariff schedules. There are still no liberalization commitments in specific services sectors. The United States would have gained from the inclusion of stronger disciplines in the antidumping and subsidy codes because other countries are increasingly emulating US practices in these areas and our exports will suffer as a result. The phaseout schedule for the textile/apparel quotas requires a large jump in the last year so invites a stretchout effort as the final date approaches. Environmental issues, and several others called for in the Congressional mandate to the negotiators, were not meaningfully addressed. But the specifics of the agreement clearly add up to a "net plus" for the United States and it would be folly to reject such a major benefit for our economy.

⁷ Assuming that (1) most textile/apparel exporting countries provide access to their own textile markets and thus qualify for the quota phaseout and (2) China ultimately joins the GATT so will qualify as well.

⁸ William R. Cline, The Future of World Trade in Textile and Apparel (second edition), Washington: Institute for International Economics, July 1990.

The Strategic Implications

In addition to these detailed results, the Round carries several major strategic implications. First, its successful conclusion culminates an historically unique "trade triple play." Congress approved the NAFTA last November. APEC began the process of creating an economic community in the Asia Pacific a few days later.⁹ Now the Round has been completed. The combination of these three events transforms the global trading system, demonstrating that the major countries still understand the crucial importance of restoring the momentum of opening markets--the bicycle theory. As a result, the credibility of the system has been restored and the risks of a truly apocalyptic collapse of confidence have been averted.¹⁰

Second, and closely related, the restoration of GATT credibility makes the world much safer for regional trade advances. Regional initiatives--such as the European Union, NAFTA, its potential extension into the Western Hemisphere and APEC--can be extremely constructive in reducing trade barriers and facilitating trade expansion (e.g., through investment codes

⁹ For an analysis see C. Fred Bergsten, "Sunrise in Seattle," International Economic Insights, January/February 1994.

¹⁰ As expressed in C. Fred Bergsten, "Trade Policy: Apocalypse Now?" International Economic Insights, November/December 1993.

and standards setting). Such initiatives can be especially helpful in periods just after the completion of a major multilateral negotiation, to keep the bicycle moving forward, since the GATT has tended in such circumstances in the past (after the Kennedy and Tokyo Rounds) to go into extended periods of inaction that open the door for substantial protectionist backsliding. But regional steps can be dangerous in the absence of effective global arrangements that regulate their interaction, even becoming perceived as alternatives rather than supplements to the multilateral accords. A failure of the Uruguay Round could have promoted inward-looking and destructive regionalism rather than the outward-looking and constructive variety.

Third, all three legs of the "trade triple play"--but especially the Uruguay Round--clearly reestablish the international economic leadership of the United States. I among others have hoped that the European Union and Japan, in a post-Cold War world where they too had become economic superpowers, would join the United States to provide collective leadership on international economic issues.¹¹ But Japan played a very minor role in the Round endgame, even withholding its inevitable concession on rice imports until the United States and the European Union had cemented their agricultural deal, and the only

¹¹ C. Fred Bergsten, "The World Economy After the Cold War," Foreign Affairs, Summer 1990.

leadership produced by the EU was to block action on several fronts and thus whittle down the final package. The United States of course blocked action in several areas as well and is responsible for trimming the ultimate agreement. But the United States, in contrast to the EU and Japan, provided the positive leadership that was essential to push the GATT membership to closure. Though others may carp about it, it seems that there is not yet an alternative to American leadership for defending and strengthening the open global trading system.

Fourth, the Clinton Administration appears to have engineered two modest changes in the final package from what the Bush Administration had been contemplating. One was to accept some watering down of the Blair House accord on agriculture in return for additional EC reductions in manufacturing tariffs, thereby marginally shifting the balance of trade liberalization from agriculture to industry. The other was to expand the exemptions from, rather than the coverage of, research support under the Subsidies Code, indicating its desire to pursue American technology goals more actively. Neither change has a large impact on the final package but together they modestly altered its final composition.

Fifth, the successful conclusion of the Uruguay Round has once again demonstrated the value of negotiating a wide array of issues together in a GATT "round." Tradeoffs among the different

sectors and issues permitted a far larger package than would ever have been possible from a series of narrow discrete efforts. It is fully understandable that those who conducted the Round, particularly those who were with it for the entire seven years and still face considerable further work, might say "never again." But the same cries were widespread after both the Kennedy and Tokyo Rounds and the logic that produced the Uruguay Round may well produce yet another round in the future.

A Few Final Reflections

The most essential requirement, however, is to avoid another long hiatus between GATT negotiations as occurred after both the Kennedy and Tokyo Rounds. During those two periods, each of which lasted about seven years, there was an enormous outburst of new trade restrictions (particularly in the United States, where both periods also witnessed huge dollar overvaluations and thus record trade deficits--a problem which may be looming again in this post-Round period). It is crucial to keep the bicycle moving forward through some combination of ongoing GATT negotiations, new regional efforts (as with APEC and perhaps a southward extension of NAFTA), and perhaps a new "round" within the next few years.

This is particularly true in the present circumstances because, despite the "trade triple play" of 1993, it would be far too soon to declare victory for the forces of liberalism. Both

the Uruguay Round and NAFTA successes were very close calls. Tensions remain between global and regional trade arrangements and may well escalate with the coming expansion of all three of the major regionals: the EC, NAFTA and APEC. The world economy has just limped through its third consecutive year of anemic growth, and unemployment is high everywhere and still rising in most countries. The American trade deficit will probably reach a record level (more than \$160 billion) in 1994.

Moreover, there is probably a majority of protectionist countries within the European Union. The West is inexplicably raising new trade barriers against the countries of Eastern Europe and the former Soviet Union as they struggle to liberalize their economies and earn foreign exchange.¹² Severe trade conflict between the world's two largest economies, the United States and Japan, looms later this week in light of the failure to date of their negotiations under the Framework Agreement of mid-1993. Trade conflict between the largest and third largest economies, the United States and China, is also underway. Restoration of the Super 301 authority in the United States is quite likely. The prospect of trade warfare, rather than

¹² For the latest case see C. Fred Bergsten, "Aluminum Tests Clinton's Mettle," Wall Street Journal, January 12, 1994

disappearing with the "triple play" of 1993, is likely to remain omnipresent in 1994.¹³

It is thus imperative for Congress to vote its approval of the Uruguay Round package as early as possible. For all the criticism that it stirred, NAFTA was essentially a lop-sided bilateral deal in favor of the United States; we gave very little while Mexico undertook further substantial liberalization. (Mexico also gained a great deal by locking in access to currently low US protection and its own reforms but the United States made very few new concessions in the deal.) By contrast, since the Uruguay Round comprised a hundred other countries, including at least one big player which is our equal (the European Union), the United States had to give a good deal and could not get everything it wanted. Hence it is no surprise that many American firms, and some commentators, prefer bilateral deals with smaller countries and have criticized the GATT pact.

But they are wrong. The payoff from a global negotiation is much greater. It has become increasingly impractical to rely on bilateral negotiations in a world of more than one hundred trading partners. Moreover, a failure of the global system would be catastrophic for the United States--undermining both the

¹³ A detailed analysis, and proposals for responding to these problems, can be found in C. Fred Bergsten, "Trade Wars Averted--Or Only Deferred? The Global Economic Agenda for 1994," presented to the World Economic Forum, January 28, 1994, Davos, Switzerland.

potential gains from regional and bilateral deals, as noted, and the uniquely global economic (and security) interests of this country. The final Uruguay Round package is clearly a substantial plus. The Congress should approve it as soon as possible.

**TESTIMONY OF ROBERT D. HORMATS
VICE CHAIRMAN, GOLDMAN SACHS INTERNATIONAL**

**BEFORE THE SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
OF THE COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES**
February 6, 1994

Chairman,

I appreciate the opportunity to testify before this committee on the results of the Uruguay Round. Having examined the agreements reached in this negotiation and the report of the Advisory Committee for Trade Policy and Negotiations I have concluded that as the result of the Round the United States meaningfully improved access for its goods, services and investors to foreign markets. I congratulate Ambassador Kantor and the entire American negotiating team for its persistence and its determination in achieving a number of important breakthroughs.

There were several areas in which results fell short of expectations. In my own industry, financial services, results were disappointing. But the contribution that a more open world market will make to global growth and investment flows will boost our business and that of many other American financial firms, which together represent a major and growing source of foreign earnings for this country and a source of new, high quality American jobs. The pharmaceutical and audiovisual industries, inter alia, also were disappointed with the results. But on balance the Uruguay Round agreement, as required by the Trade Act of 1974, "promote[s] the economic interest of the United States. I recommend expeditious submission by the president to the Congress and prompt passage by the Congress.

In this testimony I will highlight a few areas in which progress was made, but concentrate on areas in which additional work is necessary and suggest future directions of American trade policy.

SPECIFIC RESULTS

Among the most significant result for American industry were:

- agreements among industrialized nations to cut tariffs by one-third and to eliminate
- tariffs in some important areas such as construction equipment, paper, medical equipment, pharmaceutical products and steel.

- for the first time in the history of the post-World War II negotiating Rounds, results were achieved in reducing barriers to agricultural trade. Although a few last minute adjustments were made to the Blair House agreement by the US to accommodate France, the fundamentals of that agreement remain intact. Farm products will now come under the rules of the GATT; EC agricultural exports will be limited with respect to the volume of subsidized goods that can be exported as well as the budgetary amount of those subsidies; "tariffication" will take the place of quotas.
- an agreement to further open government procurement to foreign bidders. Construction and services are covered for the first time. A certain amount of coverage will now be extended to sub-national political units and government-owned utilities -- although negotiations to further expand coverage in these areas will continue until April 15 of this year. American construction and telecommunications companies will realize significant benefits from these results.

JOBS AND GROWTH

Quantifying the impact of the Round's results is difficult and implies a greater degree of precision than is possible given other variables that affect both employment and economic growth. The GATT Secretariat estimates that between now and 2005: world trade will grow at an annual rate of 5% compared to about 4% without the Round; world output would grow at about 3.5% compared to about 2.8% without the Round; global economic output will be roughly \$2 trillion higher in 2005 than it otherwise would have been. The OECD has developed its own set of figures which show an overall change in real income for the US by the year 2002 of 0.2% , and for the world of 0.8%. But this excludes the benefits of liberalization in services and non-tariff barriers.

The benefit of the Round should not only be seen in increased market access. Members of the EC, largely due to the reduction of farm subsidies and lower food prices, will realize a boost in consumer incomes. Other European countries also will benefit from lower agricultural subsidies; their consumers will now have more money to spend on other things. So will American consumers -- who will have access to a broader range of products at a lower price.

UNFINISHED BUSINESS

Many American objectives were unrealized. Foreign tariff reductions in such areas as wood products, non-ferrous metals, chemicals, textiles and apparel were disappointing as were liberalization commitments by our major trading partners in financial services, telecommunications and audiovisual services. In addition, we had hoped for more progress in persuading other countries to liberalize access and improve treatment of foreign investment and to better protect, with a shorter transition period, intellectual property. In this latter area, despite important commitments made in the TRIPS Agreement that will help the computer and software industries, the length of the transition period for pharmaceuticals in developing nations disadvantages that industry.

I believe it is desirable for the Congress both to pass legislation to implement the results of the Round and to ensure follow up in several areas. First, implementation of the results of the Round must be credible and transparent. Failure to implement the results effectively and to resolve disputes expeditiously in the WTO will result in a decline in public support for the Round's results and for multilateralism in general.

More broadly, the US needs an active post-Round strategy. The Uruguay Round was the last of the major trade negotiations of the 20th Century and forerunner to those of the 21st Century. It set the stage for future negotiations by tackling the new agenda of trade issues -- domestic policies that heavily influence international commerce, e.g. protection of intellectual property, rules on foreign investment and access for providers of services. These heretofore had been considered untouchable in international trade negotiations because of their political sensitivity, even though they now influence trade to a greater degree than tariffs.

But the Uruguay Round itself will not be the model for the next series of trade negotiations. With the difficulties of completing the Round fresh in their minds, political leaders will take the next steps toward trade liberalization in smaller and less centralized fora. They are in no mood to launch a new round soon. Even if they wished to, reaching international agreement on its terms would be time consuming. And obtaining new "Fast Track" legislative authority would be problematical. It took six years from the end of the Kennedy Round to the launching of the Tokyo Round -- and seven years

from its conclusion to the beginning of the Uruguay Round. A similar hiatus now would leave myriad unresolved problems.

Even if a new round could be launched right away, there is little reason to believe it would be more successful than the Uruguay Round in resolving US-EC disputes over aircraft subsidies, increasing access to Europe's market in movies, removing impediments on foreign financial service companies and effecting substantial telecommunications liberalization. Progress in many of these areas will require intensive bilateral negotiations. And liberalizing or harmonizing other domestic policies that impact trade -- such as investment restrictions, government procurement rules, competition policy, environmental protection and other service industry access -- could be frustrated by a "lowest common denominator" syndrome, and concerns about "free riders," if attempted at a global level.

More progress is likely to be made regionally. In coming years many countries will be more willing to lower barriers to imports from, and modify domestic policies that distort trade with, nations from whom they obtain direct reciprocity in regional -- or in some cases bilateral -- negotiations rather than in negotiations with over one hundred other GATT members on a basis that permits many to avoid reciprocity.

During the remainder of this decade there will be greater prospects for countries to open foreign markets for their goods, services and investment on a regional basis -- as well as in bilateral negotiations and those among cross-regional "coalitions of the willing" -- than on a global basis. Examples include: broadening and deepening NAFTA and other free trade agreements in the Western Hemisphere, enlarging membership in the European Union, expanding commercial opportunities through APEC and freer trade within ASEAN.

This does not mean the new WTO becomes less important. On the contrary, the need for well functioning global rules and institutions is greater, not less, in a world of regional free trade areas. Unresolved market access issues in the Uruguay Round need to be pursued actively. They include further efforts to cut tariffs and progress on financial, telecommunications and audiovisual. Also the WTO should mobilize these "coalitions of the willing" to provide opportunistic countries the chance to faster pace than others -- leaving others an open door to join later when they make similar commitments.

Statement of
Roger B. Schagrin
Before The Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
on
The Trade Agreements Resulting From
The Uruguay Round of Multilateral Trade Negotiations
February 8, 1994

Good morning, Mr. Chairman and members of the Ways and Means Trade Subcommittee. Thank you for allowing me to provide comments on issues related to the recent trade agreements concluded in the Uruguay Round. For the record, my name is Roger Schagrin of the law firm of Schagrin Associates. I represent a number of significant domestic manufacturing interests, including the Committee on Pipe and Tube Imports, a trade association comprised of 20 domestic producers of steel pipe and tube products located throughout the country; Weirton Steel Corporation of Weirton, West Virginia, still the largest employee-owned manufacturing company in America; Armco, Inc. of Pittsburgh, Pennsylvania, a diverse manufacturer of specialty steel products; and the Grinnell Division of Tyco International of Exeter, New Hampshire, a manufacturer and installer of products for automatic fire safety sprinkler systems. Together, this group of clients represents over 75,000 employees in the United States, and I am proud to say that they are either the most competitive or among the most competitive manufacturers of their products in the world. I also have the privilege of chairing the Government Affairs Committee of the Committee to Support U.S. Trade Laws, a broad based coalition which includes a variety of U.S. companies and labor organizations who support strong U.S. trade laws.

I wish to personally thank you, Mr. Chairman and members of the subcommittee for the personal efforts that you, and your colleagues on the committee and in the House contributed during the GATT negotiations and during the final days in Geneva in order to maintain strong and effective unfair trade laws for the United States. With your help, and with a strong commitment by Ambassadors Kantor and Yerxa, Undersecretary Garten and the entire team of U.S. negotiators were able to avoid the potential disaster for the United States that could have occurred if the Dunkel text issued in December 1991 had been adopted.

As the committee and the Administration prepare the legislation implementing the GATT Agreement, I would suggest that you should keep in mind three over-arching principles. First, the unfair trade laws must remain effective in allowing U.S. industry to combat unfairly traded imports. Second, domestic producers and their workers who have proven they have been injured by unfair trade practices must be compensated from a portion of the unfair trade duties collected by the Customs Service. Third, the Administration and the committee should keep simplification in mind as you are making changes to the Statute so that small and medium-sized businesses will have access to the use of the unfair trade laws.

There are a number of areas in which the GATT Agreement required changes to U.S. law. One of the most important of these is the new sunset provision. We must ensure that relief from unfair trade practices lasts at least as long as is allowed by the new Code and that the rules governing the ITC's review allow relief to continue where it is apparent that dumping and

subsidization continue and removal of the order will cause injury to recur.

There are also numerous technical changes to the calculation methodologies used by the Department of Commerce in making dumping determinations. These include averaging, sales below cost, constructed value, de minimis margins, and others. These areas should be implemented in a manner that does not weaken the laws.

In key areas in which the new GATT Codes are silent, such as circumvention, the Administration and Congress must make certain that our laws are strengthened and vigorously enforced. There is nothing more frustrating for the domestic industry that has survived the gauntlet of demonstrating both unfair trade practices and injury to the Department of Commerce and ITC than to see the lawyers, importers, and foreign producers scheme away to circumvent the order and undermine the benefits to the industry of having won the case. The U.S. should tighten the rules against circumvention and should provide for procedures and statutory time lines so that petitions alleging circumvention are investigated and determinations made by the Department in the timely manner which those accorded relief under the laws properly deserve.

Mr. Chairman, we are all well aware that our unfair trade laws provide only prospective relief. An industry that has suffered injury finally sees unfair trade duties begin to be collected 3 - 7 months after a petition is filed. The injury suffered by these industries has already affected their ability to make the capital investments necessary to be competitive with their foreign competitors both in the U.S. market and in foreign markets. It has also cost workers their jobs, sometimes permanently. The unfair trade duties that are collected by the U.S. Treasury can offset some of the future harm from unfair competition, though to be honest, in related-party importer situations, often the foreign parent corporation eats a large portion of the dumping duties. You and this committee realized the existence of this problem and in the 1988 Trade Act, this committee and the House of Representatives passed a provision that would compensate injured industries from the future unfair trade duties collected by the government. Unfortunately, this provision was stripped from the bill in conference. Mr. Chairman, I urge you to include a compensation provision in the GATT implementing legislation.

Finally, I believe that the committee and the Administration should actively look for ways to simplify these laws. I have had personal experience with the fact that small or medium-sized businesses can no longer afford the legal fees for the effort required to utilize these laws, which have grown exceedingly more complex in terms of practice at both the Commerce Department and the ITC in the past decade. I may be in the distinct minority of lawyers that believe that it would not be harmful to the system if we sacrificed a little of the exactitude with which we attempt to measure both margins and injury in return for lower legal fees and cost. I think that the U.S. economy will suffer in the long term if in another few years the only companies that have access to the unfair trade laws are Fortune 500 companies.

Mr. Chairman, thank you for the opportunity to testify today. I look forward to working with you and with your excellent professional staff as this legislation is prepared.

Testimony submitted to the Subcommittee on Economic Policy, Trade and the Environment,, Committee on Foreign Affairs, U.S. House of Representatives hearings held March 8, 1994 in Washington, DC

* * *

Because of the potentially devastating effect which the GATT agreement will have upon New England egg producers, the New England Brown Egg Council welcomes this opportunity to submit testimony.

Our Council is a trade association representing virtually every producer of brown eggs in the six New England states. Our offices are located at 77 Water Street, Hallowell, Maine 04347; our mailing address is Post Office Box G, Augusta, Maine 04330.

New England's brown eggs are produced on small family farms and medium and large production complexes through the region. There are six major packing firms which process the vast majority of these eggs for retail:

DeCoster Egg Farms, Turner, Maine
Dorothy Egg Farms, Winthrop, Maine
Kotkoff Egg Farms, Lebanon, Connecticut
Mountain Hollow Farms, Manchester, New Hampshire
Southern New England Eggs, Franklin, Connecticut
Westminster Egg Farms, Westminster, Massachusetts

New England represents approximately 3.3 percent of the nation's egg production, with 9.3 million hens producing 2.5 billion eggs annually. The proportion of New England's egg industry to the national egg industry -- slightly over 3% -- is similar to the ratio of New England's human population to the total U.S. populace. In other words, the egg industry is no more -- and no less -- important in New England than in the country as a whole.

What is significant, however, is the importance of New England to the nation's exports of eggs, and the importance of these exports to New England's egg industry.

Of the approximately 70 million dozen eggs exported last year by the United States, approximately one-half of these exports came from New England. This apparent anomaly results from the significance of egg shell color. The majority of the world's population consumes brown eggs, from the strains of layer hens which produce these brown shell-colored eggs. New England is the only region of the United States with significant brown egg production, going back to the days of the Yankee Clipper ships, when crews brought brown-egg laying hens back from China.

Because of this international preference for brown eggs, particularly in the Pacific rim nations, New England eggs have for years been aggressively exported. U.S. traders years ago established Hong Kong, one of the major importers of eggs, as a major customer for New England brown eggs. In the 1980's, however, the nations of Western Europe, seeking to support high domestic agricultural production through export subsidies, displaced U.S. egg sales to Hong Kong. The major European (EU) egg exporters have been the Dutch.

As members of the Subcommittee are well aware, the United States countered the European export subsidies with our Export Enhancement Program (EEP), which has had marked success and without which the GATT agreement never would have been reached. However, the EEP did not initially include table eggs; when it did, several revisions and adjustments were necessary to make the EEP workable. U.S. egg exports therefore did not increase significantly until 1990. Since that time, U.S. egg exports under the EEP have reached approximately 60 million dozen a year.

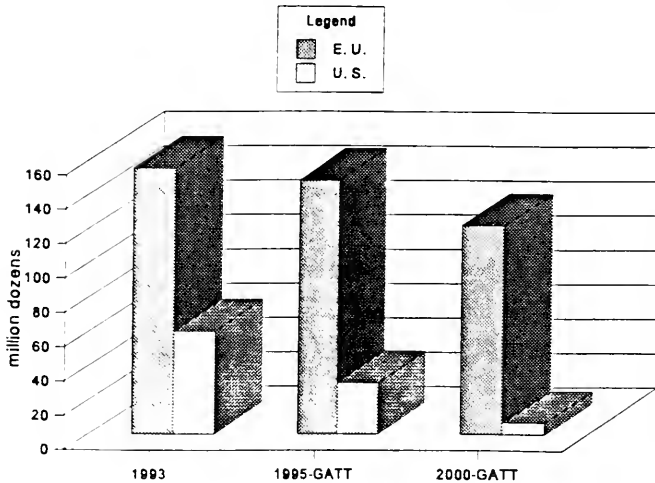
The GATT agreement, however, set 1986-90 as the base period. **This places U.S. eggs at an incredible disadvantage.** The agreement was modified, prior to signing (Blair House II) to incorporate a base period of 1991-92 for the first year of implementation of the GATT agreement, with the permissible level of "subsidized egg exports" in the final year remaining the same as agreed to earlier.

In millions of dozens, the levels of subsidized egg exports under GATT are now as follows:

	<u>E.U.</u>	<u>U.S.</u>
Present levels of exports (1993 estimates)	155	60
Permissible levels, first year of GATT	148	30
Permissible levels, final year of GATT	122	7

As the graph below indicates, the E.U. will proceed from a current advantage of 2.5 to 1 to an advantage of 5 to 1 in 1995 and nearly 20 to 1 by the year 2000.

IMPACT OF GATT ON EGG EXPORTS



While this agreement is clearly to the disadvantage of U.S. egg producers, it is more than unfair to New England's brown egg producers. To us, it is devastating.

The GATT agreement clearly calls for a 50% reduction in U.S. egg exports in 1995. To the U.S. egg industry in total, this means a loss of 1.5% of total sales. If production levels remain constant, this will mean a drop of 7-8 cents/dozen in the wholesale price for eggs, which will mean disaster for many producers (who are already looking at a tough year in 1995).

New England brown egg producers, however, currently export almost 20% of their eggs under the EEP. In 1995, therefore, they are looking at a loss of 10% of their total sales. Because the domestic demand for brown eggs is inelastic and other export opportunities are limited, the GATT agreement will force a major reduction in New England's egg production. The first to feel these reductions will be the family farms, which are less cost-efficient than the larger complexes. There will also be significant losses of jobs in related industries. In Portland, Maine, for instance, eggs are now the largest single cargo shipped from that harbor.

We recognize that the Congress cannot call for re-negotiation of the GATT agreement. We ask, however, that the Congress' ratification of this agreement be made contingent upon a number of measures designed to limit the effect of this agreement upon New England's egg producers.

Such measures could include:

1. **Agreement, to be obtained by the U.S. Trade Representative, for the E.U. to cease payment of the "restitution differential" to its egg exporters.**

This "differential" was established by the E.U. to retain the upper hand for its egg exports in countries where U.S. egg exporters are working with the EEP. Now, however, once U.S. egg exports in a given year have reached the level permitted by GATT, there is no justification for continued payment by the E.U. of the differential. This is an unpublicized issue within the E.U. and has not been addressed in the GATT negotiations.

2. **Full use of the EEP until the GATT limitations take effect. U.S. egg exporters are preparing to fight aggressively for sales when the EEP is scaled down. They should not be undermined by premature reductions of the EEP.**
3. **Expanded use of non-branded Market Promotion Program funds. This will enable U.S. egg exporters to retain some sales of eggs for which EEP assistance is being withdrawn.**

In the weeks ahead, our Council will be developing other possible methods of counteracting the impact of GATT upon New England's egg producers, and we look forward to working with the Committee on Foreign Affairs in this regard.

Highlights of GATT Accord

The Uruguay Round of negotiations to revise the General Agreement on Tariffs and Trade (GATT) that concluded in Geneva on Dec. 15 began in September 1986 in Punta del Este, Uruguay. The new agreement is the seventh renegotiation of GATT, which was created at the end of World War II and governs most world trade.

Tariffs. Tariffs would be cut on approximately 85 percent of world trade and eliminated or significantly reduced on a broad range of products, including construction and agricultural equipment, pharmaceuticals, paper, steel, beer and liquor. Tariffs on industrial goods would drop from an average of about 5 percent to an average of 3 percent.

Generally, tariff cuts would be implemented in equal annual increments over five years, though they would go into effect over 10 years in some sensitive industries such as textiles.

Agriculture. Trade in farm commodities would be covered under GATT for the first time. Governments would have to reduce the amount of money they spend on agriculture subsidies by an average of 36 percent, the total volume of agricultural products exported with the help of subsidies would have to be reduced by 21 percent.

In addition, government-paid income support payments for farmers would have to be cut by 20 percent, a commitment the United States already has met under broad farm bills enacted in 1985 and 1990 (PL 99-198, PL 101-624). Non-tariff barriers, including quotas, would be replaced by tariffs. Countries that completely bar imports of certain agricultural products, such as Japan, which bans rice imports, must provide market access equal to 3 percent of domestic consumption, rising to 5 percent over a six- to 10 year implementation period.

Textiles. The Multi-Fiber Arrangement, under which industrial nations have imposed quotas on textile imports from developing countries for more than 30 years, would be phased out over 10 years. To protect the U.S. textile industry, tariff reductions on textile and apparel imports would be significantly less than those required for other industrial goods. On the whole, U.S. textile and clothing tariffs would be cut by about 12 percent, for all industrial goods, U.S. tariffs would be reduced by 34 percent.

The new pact, which must be approved by Congress and the governments of the 116 other participants in the negotiations, would sharply reduce trade barriers, including tariffs, import quotas and export subsidies. Key elements of the 550-page agreement, which would be fully in force July 1, 1995, include changes in the following areas:

Protections against dumping. The United States and Europe would preserve existing authority to use domestic anti-dumping laws to impose fines or countervailing duties against countries that export goods at prices below cost. Disputes arising on dumping matters would be settled under a new, binding multilateral dispute-settlement mechanism.

Subsidies. In a big win for the U.S. aerospace industry, the pact includes civil aircraft products — a leading U.S. export — under new rules restricting government industrial subsidies. That paves the way for lower subsidies to the European Airbus consortium, a major competitor of the Boeing Co. The agreement permits subsidies for development of new products.

Services. Applying GATT rules to the world market in services — valued at almost \$1 trillion annually — was a key goal of U.S. negotiators. In large part, the new pact would extend GATT rules governing trade in goods to services for the first time. But multilateral agreements to open markets in specific service sectors, such as shipping, banking, securities and insurance, proved elusive.

Intellectual property. GATT rules would be extended to protect intellectual property, such as computer programs, semiconductor chip designs, books, films and music, from piracy. Developing countries would have 10 years before they would have to honor patents on drugs.

World Trade Organization. The Geneva-based GATT organization would be replaced by the World Trade Organization, a permanent body with greater authority to force member nations to comply with Uruguay Round agreements. This broad authority is strongly opposed by some environmental groups that fear the organization could force the U.S. government to reverse environmental laws that inhibit trade.

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